

# OUTLOOK 2009

## What's Next for the Markets & the Economy

### TRANSCRIPT

#### **OUTLOOK 2009 : *A Disciplined Investment Strategy for Today's Markets***

**RICHARD BERNSTEIN:** Hi, I'm Rich Bernstein, Chief Investment Strategist here at Merrill Lynch. We've talked a lot about remaining very disciplined as an investor during periods of rising volatility, or immense volatility, like we're seeing now in the marketplace.

With me today to discuss that is Savita Subramanian, head of the United States Quantitative Strategy Team. Savita's done a lot of work looking at disciplined strategies for individual investors with respect to stock selection.

Savita, thanks for joining me. First, let's just discuss ... you were the one who correctly forecast that 2008 would be a very volatile year. Do you think that's going to happen in 2009 as well?

**SAVITA SUBRAMANIAN:** You know, it's interesting. Our models are actually suggesting there is light at the end of the tunnel. But that said, we're seeing protracted volatility at least until maybe the first quarter or second quarter. So we think that this environment that we're in right now is not over yet, and it is likely to continue.

**RICHARD BERNSTEIN:** Right, so it's important for investors as they think about the year ahead to remain very disciplined.

**SAVITA SUBRAMANIAN:** Exactly.

**RICHARD BERNSTEIN:** How many strategies do you actually follow, and how do investors sort of use this?

**SAVITA SUBRAMANIAN:** We follow about 40 stock-selection strategies.

**RICHARD BERNSTEIN:** Wow.

**SAVITA SUBRAMANIAN:** Thirty-seven to be exact, and we basically track the performance of various stock-selection tools. So for example, how would you have done as an investor if you had bought the lowest PE stocks.

**RICHARD BERNSTEIN:** Good, good. Can you give me an example of one of these strategies investors might want to actually look at and might be interested in?

**SAVITA SUBRAMANIAN:** You know, there's a couple of strategies that we've been highlighting recently. PE to growth, which is just price to earnings divided by growth. We look at essentially how much you're paying for the growth of a company. It's a classic GARP strategy.

**RICHARD BERNSTEIN:** Right. GARP meaning growth at a reasonable price?

**SAVITA SUBRAMANIAN:** That's correct.

**RICHARD BERNSTEIN:** Right.

**SAVITA SUBRAMANIAN:** Growth at a reasonable price, and the reason why we like this strategy so much is that it has consistently offered excess returns to the market, so it's outperformed the market pretty consistently over the last 20-plus years, so this is not a new theme. It also has lower turnover, so it's important for tax efficiency.

**RICHARD BERNSTEIN:** Right.

**SAVITA SUBRAMANIAN:** And it also protects against downside risk, so you have a lower probability of losing money if you invest in these types of strategies. Another strategy that we focus on is a valuation strategy. It's just looking at the price to cash—free cash flow of companies--and we found that that is actually a good way to measure the inherent value of a company in the market.

**RICHARD BERNSTEIN:** Interesting. Do you produce research that clients could use and discuss with their Financial Advisors about what strategies to use and when to use them?

**SAVITA SUBRAMANIAN:** We do. We update all of our models on a monthly basis, and we distribute this to our Financial Advisors, and we think it's a useful tool for remaining disciplined, especially in these types of markets.

**RICHARD BERNSTEIN:** Well, great. We do think, once again, that's it's important to remain disciplined in a period of high volatility, and what we tried to do today is outline some of the strategies, and we encourage you to review those strategies with your Financial Advisor and to go over the research.

Thanks very much for joining us.

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